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THE ANGEL INVESTOR MARKET IN Q1Q2 2016: CAUTION PREVAILS

Market

Angels appeared to be taking a relatively cautious approach to their investments in the first half (January to June) of 2016. Given the decline in seed and start-up stage investing in Q1,2 2016 angels are likely seeking stability by investing in ventures with more of a track record than a seed/start-up stage company. It is possible that the uncertainty of the national election and the subsequent potential for volatility in the market may have contributed to a more conservative approach to angel investing leading up to the election.

Stage

Angels continue to reduce their investment allocations in the seed and start-up stage, with 27% of Q1,2 2016 angel investments in the seed and start-up stage. The trend has been a steady decrease in seed and start-up distributions when compared to similar periods in 2014 and 2015. In the first half of 2014 36% of the angel deals were in the seed and start-up stage followed by 31% in the first two quarters of 2015. There was an accompanying shift to early stage (post seed and start-up) financing to 53% of investments in Q1,2 2016 from 51% in Q1,2 2015 and 42% in the first two quarters of 2014. Expansion stage financing also increased from 15% in Q1,2 2015 to 19% in Q1,2 2016. Historically angels have been the major source of seed and start-up capital for entrepreneurs and while that stage remains over a quarter of angel investments, angel seed/start-up investments have remained consistently below the pre-2008 peak of 55%. This steady decline in allocations signifies that there continues to be a need for seed and start-up capital for both new venture formation and job creation. New, first sequence, investments represent 42% of Q1,2 2016 angel activity, similar to the 50% in Q1,2 2015. Thus, the consistent percentage of new investments coupled with the downward trend in seed and start-up capital indicates that some of these angel investments are not follow-on rounds in existing portfolio companies but rather new investments in the early stage cycle.

Job Growth

Angel investments in Q1,2 2016 contributed to job growth with 2.56 jobs per angel investment, virtually unchanged from the 2.86 jobs per angel investment Q1,2 2015.

Valuation

The average angel deal valuation in Q1,2 2016 was \$2.28 million. This deal valuation represents a decrease of 15.2% from the Q1,2 2015 average deal valuation of \$2.69 million.

Sector Analysis

Software continues to account for the largest share of investments, with 28% of total angel investments in Q1,2 2016, followed by Healthcare Services/Medical Devices and Equipment (21%), Industrial/Energy (12%), Retail (8%), Media (7%) and Biotech (6%). Clean Tech investing has been a consistent performer since 2009, currently at 10% of investments. The top three sectors (software, medical and industrial/energy) remained unchanged from Q1,2 2015. The next three sectors (retail, media and biotech) were the same as Q1,2 2015, albeit in a different order.

Sector	Software	Healthcare	Industrial/Energy	Retail	Media	Biotech
Deals	28%	21%	12%	8%	7%	6%

Yield Rates

The yield (acceptance) rate is the percentage of investment opportunities that are brought to the attention of investors that result in an investment. In Q1,2 2016 the yield rate was 18.3%, slightly lower than in Q1,2 2015 (20.0%) and Q1,2 2014 (21.2%). This yield rate indicates that entrepreneurs have a 1 in 5 chance of receiving angel capital and reflects a reasonable approach to investing by angels but it also reveals the difficulty for entrepreneurs to secure angel funding.

Women and Minority Entrepreneurs and Investors

In Q1,2 2016 women angels represented 22.2% of the angel market, a slight decrease from Q1,2 2015 (24.2%). Women-owned ventures accounted for 32% of the entrepreneurs that are seeking angel capital and 14% of these women entrepreneurs received angel investment in Q1,2 2016. For Q1,2 2016 the percentage of women that received angel investments is comparable to the overall market yield rate and to the yield rate for women ventures in Q1,2 2015 (14.4%). Minority angels accounted for 6.3% of the angel population and minority-owned firms represented 14.2% of the entrepreneurs that presented their business concept to angels, which is a significant increase from Q1,2 2015 (5.6% presenting). The yield rate for these minority-owned firms was 21.9%, which is comparable to the market yield rate.

The **Center for Venture Research** (CVR) has been conducting research on the angel market since 1980. The CVR's mission is to provide an understanding of the angel market through quality research. The CVR is dedicated to providing reliable and timely information on the angel market to entrepreneurs, private investors and public policymakers. The Center for Venture Research would like to thank all the angel groups and individual angels that participate in our research efforts. The response rate for this survey was 19%. The Center for Venture Research also provides seminars to angels and entrepreneurs, and research reports on aspects of the angel market are also available. For more information visit <http://paulcollege.unh.edu/research/center-venture-research> or contact the CVR at 603-862-3341.

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